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ABSTRACT

This report to the Mississippi Legislature presents the findings of a review of the cash management policies, procedures, and practices of the State Board of Trustees of Institutions of Higher Learning (IHL). The methodology involved review of: applicable Mississippi statutes; standards promulgated by the National Association of College and University Business Officers; IHL entities' policies, procedures, and reports; interviews with Board and state officials and staff; and a survey of financial institutions with which IHL entities had contractual relationships. Among findings were the following: some university officials and IHL board members with cash management responsibilities also had financial interests in financial institutions with which their respective universities or offices were doing business; some institutions and the IHL central office did not have required contracts or formal cash management/investment policies and procedures; and there was inadequate state oversight of endowments. It was recommended that: (1) the Board of Trustees of Institutions of Higher Learning should establish a policy prohibiting officials/employees from having any conflicting financial interests; and (2) the Legislature should amend the Mississippi Code concerning public employees business relationships to prohibit being an officer or stockholder of banks or other financial institutions with which their employing agencies do business if the employees have financial management responsibilities. (JLS)

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Report To

The Mississippi Legislature

ED 398 822

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

A REVIEW OF CASH MANAGEMENT POLICIES, PROCEDURES AND PRACTICES OF MISSISSIPPI'S INSTITUTIONS OF HIGHER LEARNING

November 20, 1990

Cash management responsibilities of the entities of the Board of Trustees, Institutions of Higher Learning (IHL) are much greater than most state agencies' because most IHL funding remains outside of the Treasury after collection. Because the IHL board has not exercised oversight over university cash management practices, numerous instances of ineffective cash management have occurred.

- Eleven university officials and two IHL board members with direct or indirect cash management responsibilities also had financial interests in financial institutions with which their respective universities or offices were doing business.
- Four institutions and the IHL central office have not contracted with depositories as required by state law.
- Four institutions do not have formal cash management/investment policies and procedures.
- Five institutions do not obtain competitive bids on certificates of deposit, and five institutions solicit banking services based on public relations concerns rather than effectiveness and efficiency concerns.
- Five institutions did not adequately monitor collateral pledged by financial institutions to cover deposits in excess of federal insurance limits during fiscal year 1989.

As of June 30, 1989, over seventy-eight percent of endowments on behalf of Mississippi universities were held by private foundations and administered primarily by university officials with no state oversight.

The PEER Committee

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PEER: THE MISSISSIPPI LEGISLATURE'S OVERSIGHT AGENCY

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

An extension of the Mississippi Legislature's constitutional prerogative to conduct examinations and investigations, PEER is authorized by law to review any entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

As an integral part of the Legislature, PEER provides a variety of services, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

A REVIEW OF CASH MANAGEMENT POLICIES, PROCEDURES AND PRACTICES OF MISSISSIPPI'S INSTITUTIONS OF HIGHER LEARNING

November 20, 1990

The PEER Committee

Mississippi Legislature

The Mississippi Legislature

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November 20, 1990

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At its meeting of November 20, 1990, the PEER Committee authorized release of the report entitled **A Review of Cash Management Policies, Procedures and Practices of Mississippi's Institutions of Higher Learning.**

Robert G. Huggins

Senator Robert Huggins, Chairman

This report does not recommend increased funding or additional staff.

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A REVIEW OF CASH MANAGEMENT POLICIES, PROCEDURES AND PRACTICES OF MISSISSIPPI'S INSTITUTIONS OF HIGHER LEARNING

EXECUTIVE SUMMARY

INTRODUCTION

The PEER Committee received a legislative request to review and evaluate *"cash management functions encompassing all sources of monies of the Board of Trustees of Higher Learning and all institutions and agencies under the board's jurisdiction."*

In responding to the legislative request for specific information on cash management policies, procedures and practices of the Board of Trustees of Institutions of Higher Learning (IHL), PEER sought to:

- identify IHL officials or employees who make cash management or investment decisions and also have any interest in financial institutions with which their respective institutions transact business;
- identify IHL officials or employees who manage or control those with direct cash management responsibility noted above who also have any interest in financial institutions with which their respective institutions transact business; and,
- determine whether IHL entities manage cash effectively, including determination of whether idle cash exists.

Overview

PEER identified eleven university officials and one IHL board member with financial interests in banks with which their respective entities were doing business at June 30, 1990. PEER also noted that one other IHL board member had an interest in an IHL-associated bank until May 17, 1990, when IHL staff transferred accounts to another bank.

PEER noted deficient cash management practices at all institutions of higher learning except the University of Mississippi and the University of Mississippi Medical Center (see Exhibit A). Instances of ineffective cash management ranged from some universities' lack of compliance with state law to a lack of oversight by the IHL board of trustees as mandated by law. In many cases, institutions do not monitor and control cash in a manner that maximizes potential revenues while minimizing related risks. In addition, university foundations, which held over 78 percent of endowments on behalf of Mississippi universities at June 30, 1989, are usually administered by university officials but are not subject to state oversight or review.

IHL Structure

MISSISSIPPI CONSTITUTION Section 213-A establishes the state's institutions of higher learning and places them under the *"management and control"* of a twelve-member board of trustees that is supported by a commissioner and staff.

Virtually all IHL funding sources (over $793 million in revenues for fiscal year 1989) remain outside of the Treasury upon collection by IHL entities. In contrast, most other state agencies' funds (general and special) are maintained in the Treasury and managed by the State Treasurer. As such, IHL entities' cash management responsibilities are much greater than most state agencies'. Under this arrangement IHL entities are responsible for establishing bank accounts and managing cash received (including state appropriations) and disbursed through such accounts. The mere volume of funds flowing through the system provides an excellent opportunity to generate investment income (primarily interest income).

FINDINGS

Potential Conflicts of Interest

PEER identified eleven university officials and two IHL board members with direct or indirect cash management responsibilities who also had financial interests in financial institutions with which their respective universities or offices were doing business.

EXHIBIT A

INSTITUTIONS OF HIGHER LEARNING
SUMMARY OF FINDINGS BY INSTITUTION

	ASU	DSU	JSU	MSU	MUW	MVSU	UM	UMC	USM	Gulf Lab	IHL
Have not contracted with depositories as required by statute.	X		X			X				X	X
Did not adequately monitor collateral pledged by financial institutions.			X	X		X			X	X	
Do not have formal cash management/ investment policies and procedures.	X		X			X				X	
Do not obtain competitive bids for certificates of deposit.	X				X	X			X	X	
Did not solicit banking services based on efficiency and effectiveness.	X	X			X	X			X		
Total Findings	4	1	3	1	2	5	0	0	3	4	1

The management of each university and the staff at the IHL central offices are responsible for selecting their respective depositories and investments. PEER determined that eleven university officials/employees and one IHL board member with direct or indirect cash management/investment responsibilities also had financial interests in banks with which their universities or offices were doing business as of June 30, 1990 (see Exhibit B).

PEER also noted that one other IHL board member had an interest in a financial institution which the IHL central office used as a depository until May 17, 1990. William Jones, Jr., an IHL board member, is a stockholder and serves as Senior Vice President and registered lobbyist for Deposit Guaranty National Bank, which served as an IHL depository up until May 17, 1990.

Many of the financial interests of officials/employees noted above are not substantial in relationship to the total ownership of the financial institutions involved. While PEER found no evidence that officials'/employees' interests in financial institutions had an impact on the selection of depositories for the respective universities or the IHL central offices, these relationships give the appearance that the selection process may not be independent.

Recommendations

1. The Board of Trustees of Institutions of Higher Learning should establish a policy prohibiting officials/employees from having any financial interest in financial institutions with which their job responsibilities require them to make financial management decisions.

2. The Executive Director of the PEER Committee should forward a copy of this report to the Mississippi Ethics Commission for its review and investigation if necessary.

3. The Legislature should amend MISS. CODE ANN. Section 25-4-105(4)(a) concerning public employees' business relationships. Public employees should be prohibited from being an officer or stockholder of banks or other financial institutions with which their employing agencies do business if the employees have financial management responsibilities.

Effectiveness of Cash Management

IHL and the universities invest funds in interest-bearing accounts as required by state law; however, PEER found numerous instances of ineffective cash management within Mississippi's university system.

Four institutions and the IHL central offices have not contracted with depositories as required by MISS. CODE ANN. Section 7-9-43. (See Exhibit A.)

The four institutions referred to above do not have written agreements of any type with their respective financial institutions, despite the fact the financial institutions handle millions of dollars on an annual basis for them. MISS. CODE ANN. Section 7-9-43 requires institutions of higher learning to obtain written depository contracts, and the National Association of College and University Business Officers (NACUBO) recommends written contractual agreements between colleges or universities and banks. Potential conflicts related to misunderstandings can be avoided by having a carefully written contractual agreement.

The State Auditor reported in fiscal year 1989 audit reports (the most recent available) that five institutions had not monitored adequately collateral pledged by financial institutions to cover deposits in excess of federal insurance limits. (See Exhibit A.)

Because federal depository insurance only covers up to $100,000 in deposits, financial institutions pledge assets against those deposits in excess of the insurance limits for state and local government entities. MISS. CODE ANN. Section 7-9-43 requires depositories that contract with state institutions of higher learning to also qualify as state depositories under MISS. CODE ANN. Section 27-105-5 which requires depositories to pledge securities as collateral in an amount equal to 105% of deposits in excess of $100,000.

These institutions' failure to monitor collateralization has resulted in at least four cases in which institutional deposits were left unsecured in violation of MISS. CODE ANN. Section 27-105-5.

EXHIBIT B

INSTITUTIONS OF HIGHER LEARNING
SCHEDULE OF IHL OFFICIALS WITH INTERESTS IN
UNIVERSITY/IHL FINANCIAL INSTITUTIONS
AS OF JUNE 30, 1990

NAME	IHL ENTITY	POSITION/TITLE	FINANCIAL INSTITUTION	STOCK OWNERSHIP	FY 1990 DIVIDENDS	DIRECTORS' FEES
Walter Washington	ASU	President	United Mississippi Bank	$4,345	$40	
F. Kent Wyatt	DSU	President	Sunburst Bank	$13,595	$677	$8,400
Bryce Griffis	IHL	Board Member	Sunburst Bank	$77,644	$4,545	
Terry L. Bridges	MSU	Accounting Coordinator-MCES	Deposit Guaranty National Bank	$1,791	$112	
W. Daniel Bryant	MSU	Accounting Coordinator	Deposit Guaranty National Bank	$1,791	$112	
Verner G. Hurt	MSU	MAFES Director	Deposit Guaranty National Bank	$8,681	$541	
			National Bank of Commerce	$13,801	$463	
Frank T. Jackson	MSU	Associate Comptroller	Deposit Guaranty National Bank	$23,631	$1,473	
			National Bank of Commerce	$8,066	$270	
Warren Thompson	MSU	Director-Forest Products Lab	National Bank of Commerce	$5,735	$192	
George L. Verrall	MSU	Vice President	Deposit Guaranty National Bank	$1,791	$112	
			National Bank of Commerce	$2,886	$97	
Donald W. Zacharias	MSU	President	Deposit Guaranty National Bank	$21,666	$1,350	
William W. Sutton	MVSU	President	Deposit Guaranty National Bank			$600
Aubrey K. Lucas	USM	President	Bank of Mississippi	$20,721		$1,100
			Sunburst Bank	$7,872	$461	

Four institutions do not have formal cash management/investment policies and procedures. (See Exhibit A.)

According to NACUBO, formal written guidelines provide management with an opportunity to establish limitations for fiscal managers with regard to cash/investment management. In addition, written guidelines clarify authority and responsibility for cash management/investment decisions and enhance accountability.

These institutions generally operate under a premise of "this is the way we have always done it." According to NACUBO, the lack of written guidelines reduces the accountability of those specifically responsible for investments and other banking transactions.

Five institutions do not obtain competitive bids on investments (primarily certificates of deposit), and five institutions solicit banking services based on public relations concerns rather than effectiveness and efficiency concerns. (See Exhibit A.)

The University of Southern Mississippi's banking policy requires the distribution of certificates of deposit among thirteen banks and savings and loans, and the other IHL entities referred to above have consciously elected to allow investments to "roll over" with the same institutions at the institutions' individual rates regardless of the competition's rates. Alcorn State University ($5,486 for fiscal year 1990) and the University of Southern Mississippi ($2,523 for fiscal year 1990) lost revenue as a result of their noncompetitive investment practices.

The Mississippi University for Women and University of Southern Mississippi require the rotation of their operating accounts on a periodic basis among local banks, while Alcorn State University, Delta State University, and Mississippi Valley State University divide their banking services among all local banks. These multiple banking relationships exist for public relations purposes rather than being based on effectiveness and costs of banking services provided.

While there may be political reasons for maintaining accounts at numerous financial institutions, this practice creates difficulties for cash managers and costs more. IHL/university officials have recently expressed strong concerns about the limited resources and poor financial condition of the state's university system. Failure to maximize potential revenues at every level (particularly when no additional cost is involved) under such conditions suggests a system that does not maximize its current resources.

The Board of Trustees of Institutions of Higher Learning does not exercise oversight over the university system's cash management and investment practices.

The board does not review investment performance nor does it establish or monitor cash management policies and procedures at the state's institutions of higher learning. IHL requires universities to submit quarterly investment reports to the IHL central offices but does not review or analyze the reports, nor does the IHL staff present them to the board of trustees for review. In fact most of the universities are not timely in filing reports. The universities' quarterly investment reporting process amounts to little more than a transfer of paper from the universities to the IHL central offices.

MISSISSIPPI CONSTITUTION Section 213-A and state statutes clearly mandate the IHL board's oversight responsibilities with respect to the state's university system. Failure of IHL to monitor investment performance at its institutions has resulted in inconsistent and sometimes unacceptable investment/cash management practices.

Recommendations

1. Mississippi institutions of higher learning that do not have proper written depository contracts with their respective financial institutions should develop and execute contracts as soon as possible.

2. As recommended by the Office of the State Auditor, institutions of higher learning should implement procedures to monitor collateralization of deposits by financial institutions.

3. Institutions of higher learning that have not established proper cash management/investment policies and guidelines should do so. Such policies and guidelines should clarify authority, responsibility, and limitations for banking and investing by the respective institutions.

4. Institutions of higher learning should consider seeking competitive bids for banking services, and in all cases should seek bids for investments (certificates of deposit) among qualified financial institutions.

5. The IHL board of trustees and staff should involve themselves in the cash management/investment process of the institutions which they are required to manage and control under state law.

Private Foundations

As of June 30, 1989, over seventy-eight percent of endowments on behalf of Mississippi universities were held by private foundations which are administered primarily by university officials but are not subject to state statutory requirements.

Each of Mississippi's eight public universities is affiliated with a single-purpose foundation that exists solely for the benefit of the university. IHL officials have also developed a foundation for use by the Commissioner as a "discretionary fund." These foundations are funded primarily by private donations and claim non-profit, tax-exempt status.

IHL and university officials prefer the flexibility of foundations because of their private status. Foundations can expend funds in a manner which a university or IHL might not otherwise have authority under state law. For example, the Commissioner's fund spent $16,323 for food and refreshments, $884 for gifts and flowers, $920 for contributions, and $1,526 for club memberships during fiscal year 1990, in addition to providing an automobile and life insurance for the Commissioner. IHL/university officials also stated that some donors prefer to contribute to private foundations because they offer more confidentiality than public universities, where documentation of contributions might be public record.

PEER determined that these university/foundation affiliations, although beneficial to the universities, suffer from insufficient oversight. The Office of the State Auditor is not required to audit or review foundation financial information, and in several cases foundations are not audited by anyone annually.

Obviously, foundations have a positive effect on universities based on the fact that foundations make significant financial contributions to the universities on an annual basis. However, foundations have not operated completely independent of the universities. As such, universities administer millions of dollars in endowments through foundations with no state oversight and in some cases without annual financial audits.

Recommendations

1. The Legislature may wish to amend state laws to allow more oversight over private foundations whose sole purpose is the support of institutions of higher learning or other state agencies. Such oversight might include requiring that foundation records (other than records that disclose contributors' names and amounts) be subject to the Mississippi Public Records Act of 1983.

2. IHL/university officials with administrative responsibility for university foundations should insist that their respective foundations be audited annually by an independent certified public accountant.

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A REVIEW OF CASH MANAGEMENT POLICIES, PROCEDURES AND PRACTICES OF MISSISSIPPI'S INSTITUTIONS OF HIGHER LEARNING

INTRODUCTION

The PEER Committee received a legislative request to review and evaluate "*cash management functions encompassing all sources of monies whether restricted or unrestricted, appropriated or self-generated of the Board of Trustees of Higher Learning and all institutions and agencies under the board's jurisdiction.*"

Authority

The Committee initiated this review at its April 26, 1990, meeting. The Committee conducted this review pursuant to MISS. CODE ANN. Section 5-3-57 (1972).

Scope and Purpose

In responding to the legislative request for specific information on cash management policies, procedures and practices of the Board of Trustees of Institutions of Higher Learning (IHL), PEER sought to:

- identify IHL officials or employees who make cash management or investment decisions (select or approve depositories or investments) and also have any interest in financial institutions with which their respective institution has a contractual relationship;

- identify IHL officials or employees with indirect cash or investment management responsibility (manage or control those with direct responsibility noted above) who also have any interest in financial institutions with which their respective institution has a contractual relationship; and,

- determine whether IHL entities manage cash effectively to achieve maximum earnings consistent with state law, including determination of whether idle cash exists which should be invested.

Methodology

While conducting this review, PEER performed the following tasks:

- reviewed applicable Mississippi statutes;
- reviewed cash management and investment standards promulgated by the National Association of College and University Business Officers;
- interviewed staff of the Office of the State Auditor and the Legislative Budget Office;
- interviewed staff of IHL (the state's eight public universities, the IHL central offices, the University of Mississippi Medical Center, and the Gulf Coast Research Laboratory);
- reviewed IHL entities' policies and procedures, quarterly investment reports, annual financial statements, and audit reports of the state's institutions of higher learning; and,
- surveyed financial institutions with which IHL entities have contractual relationships.

Overview

Mississippi's institutions of higher learning have significantly more cash management responsibilities than most of Mississippi's other state government entities, because virtually all IHL funds flow through accounts outside of the State Treasury (more than $793 million during fiscal year 1989).

PEER responded to specific inquiries in a legislative petition questioning whether any IHL or university officials with cash management responsibilities also had financial interests in IHL or university financial institutions with which they conducted business, whether institutions of higher learning were effectively managing cash, and whether idle cash exists which should be invested.

PEER identified eleven university officials and one IHL board member with financial interests in banks with which their respective universities or offices were doing business at June 30, 1990. PEER also noted that one other IHL board member had an interest in an IHL-associated bank until May 17, 1990, when IHL staff transferred accounts to another bank.

PEER noted deficient cash management practices at all institutions of higher learning except the University of Mississippi and the University of

Mississippi Medical Center (see Exhibit 1, page 4.) Ineffective policies, procedures and practices ranged from some universities' lack of compliance with state law to a lack of oversight by the IHL board of trustees as mandated by law. While PEER found no idle cash balances, in many cases institutions do not monitor and control cash in a manner that maximizes potential revenues while minimizing related risks.

As of June 30, 1989, private foundations held over 78 percent of endowments on behalf of Mississippi universities. PEER determined that the foundations are administered in most cases by university officials, yet have not been subject to state oversight or review.

EXHIBIT 1

INSTITUTIONS OF HIGHER LEARNING
SUMMARY OF FINDINGS BY INSTITUTION

	ASU	DSU	JSU	MSU	MUW	MVSU	UM	UMC	USM	Gulf Lab	IHL
Have not contracted with depositories as required by statute.	X		X			X				X	X
Did not adequately monitor collateral pledged by financial institutions.			X	X		X			X	X	
Do not have formal cash management/ investment policies and procedures.	X		X			X				X	
Do not obtain competitive bids for certificates of deposit.	X				X	X			X	X	
Did not solicit banking services based on efficiency and effectiveness.	X	X			X	X			X		
Total Findings	4	1	3	1	2	5	0	0	3	4	1

SOURCE: PEER analysis of IHL and university records.

BACKGROUND

IHL Structure

MISSISSIPPI CONSTITUTION Section 213-A establishes the state's institutions of higher learning: Alcorn State University, Delta State University, Jackson State University, Mississippi State University, Mississippi University for Women, Mississippi Valley State University, University of Mississippi and University of Southern Mississippi. The state constitution places these institutions under the "*management and control*" of a twelve-member board of trustees that is supported by a commissioner and staff.

PEER identified forty-one separate budget entities within IHL; however, for purposes of this review of cash management, PEER grouped the forty-one budget entities into eleven primary management entities represented by the eight universities, the University of Mississippi Medical Center (UMC), the Gulf Coast Research Laboratory, and the IHL central office (see Exhibit 2, page 6). While the University Medical Center and the Gulf Coast Research Laboratory are considered branches of the University of Mississippi and the University of Southern Mississippi respectively, their operations are independent of those of their parent institutions.

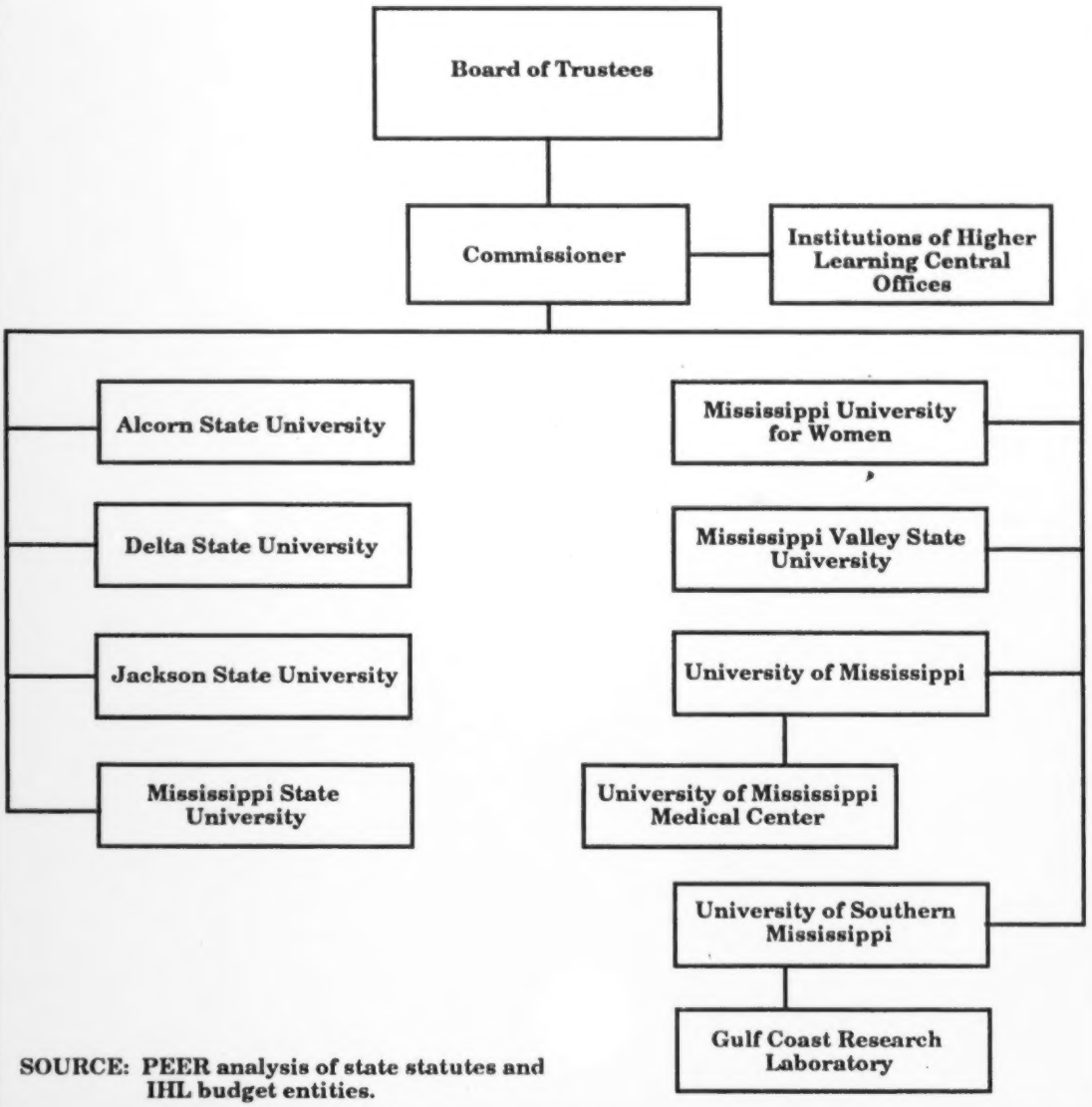
IHL Funding

MISS. CODE ANN. Section 7-9-41 authorizes IHL entities to receive state appropriations in monthly allotments from the State Treasury. In addition, virtually all other IHL funding sources (tuition, federal grants, auxiliaries, etc.) remain outside of the Treasury upon collection by IHL entities. In contrast, most other state agencies' funds (general and special) are maintained in the Treasury and managed by the State Treasurer. As such, IHL entities' cash management responsibilities are much greater than most state agencies'. Under this arrangement IHL entities are responsible for establishing bank accounts and managing cash received (including state appropriations) and disbursed through such accounts.

Mississippi's universities received over $793 million in revenues for fiscal year 1989, according to audit reports and financial information prepared by the Office of the State Auditor and the institutions of higher learning (see Exhibit 3, page 7). While the universities have not accumulated large cash reserves, the mere volume of funds flowing through the system provides an excellent opportunity to generate investment income (primarily interest income). Exhibit 4, page 8, reflects cash and investment balances of the universities at June 30, 1989. These balances represent cash and investments on hand on one day. Viewed together, Exhibits 3 and 4 convey the extent of higher education officials' cash management responsibilities.

EXHIBIT 2

INSTITUTIONS OF HIGHER LEARNING



SOURCE: PEER analysis of state statutes and IHL budget entities.

EXHIBIT 3
INSTITUTIONS OF HIGHER LEARNING
SCHEDULE OF REVENUES
FOR FISCAL YEAR 1989

	ASU	DSU	JSU	MSU	MUW	MVSU	UM	UMC	USM	Gulf Lab	IHL	TOTALS
Tuition and fees	$ 3,947,377	$ 5,501,439	$ 11,553,389	$ 25,342,909	$ 3,071,891	$ 3,231,936	$ 21,770,485	$ 3,454,505	$ 24,410,518	$ 9,020		**$ 102,293,469**
State Appropriations	9,866,910	12,183,775	22,132,419	94,155,868	7,483,928	7,700,298	45,186,176	69,714,296	49,685,098	2,979,103	6,549,558	**327,637,429**
State grants, etc.		88,393	469,555	5,340,249	4,304,229	9,211	2,544,430	733,588	1,506,232	82,337		**15,078,224**
Federal funds	8,613,295	4,114,889	16,326,322	35,648,143	1,220,292	5,612,711	15,576,837	8,300,901	18,431,167	2,606,166	1,007,149	**117,457,872**
Private gifts, etc.		64,137	849,647	8,788,750	740,591	15,808	6,267,986	8,313,355	1,051,357	324,099	110,000	**26,525,730**
Endowment income		21,490			38,660		366,664		27,486			**454,300**
Investment income	**251,593**	**609,366**	**91,563**	**3,239,073**	**141,650**	**103,485**	**1,631,464**	**2,551,034**	**793,468**	**45,932**		**9,458,928**
Auxiliary activities	4,445,323	4,292,093	8,323,362	22,993,851	1,893,373	2,927,573	21,202,301	2,803,812	18,480,703			**87,362,391**
Sales - educational	26,360	327,532	523,028	6,821,891	263,286	25,113	2,813,309	1,064,775	423,417	328,460		**12,617,171**
Sales - research				7,813,311								**7,813,311**
Sales - hospital								73,770,132				**73,770,132**
Other	1,186,094	34,288	600,086	4,585,068	1,019,352	262,315	632,026	2,958,836	1,292,155	40,032	463,886	**13,074,138**
	$ 28,336,952	$ 27,237,402	$ 60,869,671	$ 214,729,113	$ 20,177,252	$ 19,888,450	$ 117,991,678	$ 173,665,234	$ 116,101,601	$ 6,415,149	$ 8,130,593	**$ 793,543,095**

SOURCE: PEER analysis of university audit reports and financial statements.

EXHIBIT 4
INSTITUTIONS OF HIGHER LEARNING
SCHEDULE OF CASH AND INVESTMENTS
AS OF JUNE 30, 1989

	ASU	DSU	JSU	MSU	MUW	MVSU	UM	UMC	USM	Gulf Lab	IHL	TOTALS
Cash and other deposits	$ 4,550,130	$ 6,199,589	$ -1,508,684	$ 44,989,742	$ 640,592	$ 169,315	$ 16,944,406	$ 37,618,534	$ 9,935,074	$ 483,175	$ 490,650	**120,512,523**
Investments												
Repurchase agreements			22,000		850,000							**872,000**
U. S. Government Securities			144,928	4,837,420		137,586	1,834,937	11,010,979				**17,965,850**
Corporate securities				4,946,949	19,454	107,610	70,713	18,932	113,700			**5,277,358**
Mutual funds				213,121		67,193	5,471,288		541,702			**6,293,304**
	0	0	166,928	9,997,490	869,454	312,389	7,376,938	11,029,911	655,402	0	0	**30,408,512**
	$ 4,550,130	$ 6,199,589	$ -1,341,756	$ 54,987,232	$ 1,510,046	$ 481,704	$ 24,321,344	$ 48,648,445	$ 10,590,476	$ 483,175	$ 490,650	**150,921,035**

SOURCE: PEER analysis of university audit reports and financial statements.

Defining Cash Management

Although the methods of cash management can become somewhat complex, the concept merely represents the process of making maximum use of temporarily available cash. In order for cash management to be effective, the earnings generated from management of temporary cash must exceed the cost of the management process.

Effective cash management procedures can be as simple as ensuring that an entity makes daily deposits of receipts into interest-bearing accounts or as sophisticated as investment of daily cash balances in overnight repurchase agreements. While the complexity of management programs varies greatly among colleges and universities, all institutions can benefit by investing funds promptly for a maximum period.

Another critical element of an effective cash management program is a sound working relationship between an entity and its principal financial institution(s). Such a relationship is established by an entity and its financial institution by developing an understanding of and agreeing on what is expected of each.

State law limits the investment options available to institutions of higher learning as well as other state agencies to: time certificates of deposit, interest-bearing accounts, direct United States Treasury obligations, United States agency obligations, and direct security repurchase agreements (an agreement where an entity buys, holds for a specified time, and sells back United States Treasury or agency obligations). The majority of IHL investments are placed in interest-bearing accounts or certificates of deposit (see Exhibit 4, page 8). As such, references to investments in this report will primarily refer to certificates of deposit.

Potential Conflicts of Interest

The legislative request submitted to PEER for a cash management review of IHL and its universities sought identification by name of IHL/university officials/employees who have any direct or indirect interest in any financial institution who also:

> *select or approve depositories or make or approve investments; or,*
>
> *manage or control those who select or approve depositories or who make or approve investments.*

PEER identified eleven university officials and two IHL board members with direct or indirect cash management responsibilities who also had financial interests in financial institutions with which their respective universities or offices were doing business.

The management of each university and the staff at the IHL central offices are responsible for selecting their respective depositories and investments. PEER requested that universities and the IHL central office identify all officials/employees with direct (select or approve depositories and/or investments) or indirect (manage or control those who select or approve depositories and/or investments) cash management or investment responsibility within their respective entities. PEER also requested that universities and IHL central offices identify all financial institutions with which they had accounts/investments as of June 30, 1990.

PEER surveyed financial institutions with which IHL and its universities do business to determine whether the designated higher education decisionmakers had financial interests in banks and savings and loans with which their institutions were doing business at June 30, 1990. PEER submitted the names of the designated officials/employees to the financial institutions and requested confirmation of any who were employed by, had an ownership interest in, or served in any capacity (e.g., advisory board member) for the respective financial institutions as of June 30, 1990.

PEER determined that eleven university officials/employees with direct or indirect cash management/investment responsibilities also had financial interests in banks with which their universities were doing business as of June 30, 1990. PEER also determined that one IHL board member had a financial interest in a bank with which IHL had investments as of June 30, 1990. The extent of the officials' financial

interests ranged from ownership of less than 100 shares of stock to positions as members of boards of directors (see Exhibit 5, page 12).

Although PEER's confirmation of IHL officials' interest in financial institutions was performed as of June 30, 1990, PEER also noted that one other IHL board member had an interest in a financial institution which the IHL central office used as a depository until May 17, 1990. William Jones, Jr., an IHL board member, is a stockholder and serves as Senior Vice President and registered lobbyist for Deposit Guaranty National Bank, which served as an IHL depository up until May 17, 1990. On that date IHL staff transferred all funds deposited with Deposit Guaranty to Trustmark National Bank due to concerns relating to Mr. Jones' positions with the bank and IHL.

Many of the financial interests of officials/employees noted above are not substantial in relationship to the total ownership of the financial institutions involved. Furthermore, PEER found no evidence that officials'/employees' interests in financial institutions had an impact on the selection of depositories for the respective universities or the IHL central offices. Nevertheless, these relationships give the appearance that the selection process may not be independent.

In addition, MISS. CODE ANN. Section 25-4-101 states in part that:

> *. . . public servants shall endeavor to pursue a course of conduct which will not raise suspicion among the public that they are likely to be engaged in acts that are in violation of this trust and which will not reflect unfavorably upon the state and local governments.*

The fourth edition of *College & University Business Administration*, which represents the authoritative reference for higher education as published by the National Association of College and University Business Officers, recommends that every institution "*recognize and avoid conflict of interest or the appearance thereof when it potentially exists.*" In the business of government, independence in appearance is as important as independence in fact.

In addition, because IHL and most of the universities did not obtain bids for banking services and none of the state's universities nor IHL central offices have policies regarding interests in financial institutions by officials/employees with responsibility for selecting or approving financial institutions, it is impossible to conclude with absolute assurance that officials'/employees' financial interests did not impact the selection process in any manner.

EXHIBIT 5

INSTITUTIONS OF HIGHER LEARNING
SCHEDULE OF IHL OFFICIALS WITH INTERESTS IN
UNIVERSITY/IHL FINANCIAL INSTITUTIONS
AS OF JUNE 30, 1990

NAME	IHL ENTITY	POSITION/TITLE	FINANCIAL INSTITUTION	STOCK OWNERSHIP	FY 1990 DIVIDENDS	DIRECTORS' FEES
Walter Washington	ASU	President	United Mississippi Bank	$4,345	$40	
F. Kent Wyatt	DSU	President	Sunburst Bank	$13,595	$677	$8,400
Bryce Griffis	IHL	Board Member	Sunburst Bank	$77,644	$4,545	
Terry L. Bridges	MSU	Accounting Coordinator-MCES	Deposit Guaranty National Bank	$1,791	$112	
W. Daniel Bryant	MSU	Accounting Coordinator	Deposit Guaranty National Bank	$1,791	$112	
Verner G. Hurt	MSU	MAFES Director	Deposit Guaranty National Bank National Bank of Commerce	$8,681 $13,801	$541 $463	
Frank T. Jackson	MSU	Associate Comptroller	Deposit Guaranty National Bank National Bank of Commerce	$23,631 $8,066	$1,473 $270	
Warren Thompson	MSU	Director-Forest Products Lab	National Bank of Commerce	$5,735	$192	
George L. Verrall	MSU	Vice President	Deposit Guaranty National Bank National Bank of Commerce	$1,791 $2,886	$112 $97	
Donald W. Zacharias	MSU	President	Deposit Guaranty National Bank	$21,666	$1,350	
William W. Sutton	MVSU	President	Deposit Guaranty National Bank			$600
Aubrey K. Lucas	USM	President	Bank of Mississippi Sunburst Bank	$20,721 $7,872	 $461	$1,100

SOURCE: Financial institutions named above.

Recommendations

1. The Board of Trustees of Institutions of Higher Learning should establish a policy prohibiting officials/employees from having any financial interest in financial institutions with which their job responsibilities require them to make decisions such as selection of depositories or investments. The prohibition should also apply to officials who manage or control those who select depositories or investments.

2. Although PEER did not attempt to determine if any of the officials' financial interests in the respective financial institutions represented violations of the state's conflict of interest laws, the Executive Director of the PEER Committee should forward a copy of this report to the Mississippi Ethics Commission for its review and investigation if necessary.

3. The Legislature should amend MISS. CODE ANN. Section 25-4-105 (4)(a) concerning public employees' business relationships. Public employees should be prohibited from being officers or stockholders of banks or other financial institutions with which their employing agencies do business if those employees have financial management responsibilities.

Effectiveness of Cash Management

The legislative request for a cash management review of IHL/universities asked that PEER determine:

> *Whether cash is managed effectively to achieve maximum earnings consistent with state law or restrictions placed by the donor.*
>
> *Whether idle cash exists which should be invested in interest bearing accounts.*

As stated earlier, the level of cash management responsibility for IHL and its universities is much greater than that for most other state agencies whose appropriations and other revenues are maintained in the Treasury. While PEER found that the universities do not have substantial cash reserves to invest, the mere volume of funds flowing into the system provides an excellent opportunity to generate investment income (primarily interest income).

IHL and the universities invest funds in interest-bearing accounts as required by state law; however, PEER found numerous instances of ineffective cash management within Mississippi's university system. Ineffective cash management practices ranged from legal compliance

violations by some universities to a lack of oversight by the IHL board of trustees as mandated by state law.

Four institutions and the IHL central offices have not contracted with depositories as required by MISS. CODE ANN. Section 7-9-43. (See Exhibit 1, page 4.)

The four institutions referred to above do not have written agreements of any type with their respective financial institutions, despite the fact the financial institutions handle millions of dollars on an annual basis for them. While the IHL central office did have a trust agreement for its trust accounts and a repurchase agreement relating to investment of excess funds from the operating accounts, it has not executed depository contracts for the operating accounts.

MISS. CODE ANN. Section 7-9-43 requires institutions of higher learning to obtain written depository contracts as follows:

> *The state institutions of higher learning. . .shall select and make a contract with some bank to serve as a depository for funds of the same. . . . The life of said contract with a depository shall be for two and one-half (2-1/2) years. Each bank shall enter into a written contract, the terms of which shall be to perform faithfully all acts and duties required of it by this and other laws of the state.*

In addition, the National Association of College and University Business Officers (NACUBO) recommends written contractual agreements between colleges or universities and banks. NACUBO standards state that establishment of a written contract clarifies the terms and responsibilities of both parties, such as the services that will be provided by the bank, costs, conditions, and time frames. Potential conflicts related to misunderstandings can be avoided by having a carefully written contractual agreement.

The primary reason given by university officials for not having contractual agreements with financial institutions was that they had been doing business with the respective financial institutions for several years and as such had developed good working relationships. In some cases officials were not aware of the statutory requirements for depository contracts.

Maintenance of banking relationships without contracts is contrary to state statutes, which could result in legal exposure for university officials. In addition, the fact that an entity entrusts the handling of millions of dollars to another entity without any type of written agreement clarifying each party's responsibilities represents poor fiduciary

responsibility. Under these conditions, a university is left with virtually no control of the banking environment, and according to NACUBO, may be providing excessive profits to its financial institution at the expense of the university's return on investment.

The State Auditor reported in fiscal year 1989 audit reports (the most recent available) that five institutions had not monitored adequately collateral pledged by financial institutions to cover deposits in excess of federal insurance limits. (See Exhibit 1, page 4.)

Because federal depository insurance only covers up to $100,000 in deposits, financial institutions pledge assets against those deposits in excess of the insurance limits for state and local government entities. MISS. CODE ANN. Section 7-9-43 requires depositories that contract with state institutions of higher learning to also qualify as state depositories under MISS. CODE ANN. Section 27-105-5, which states in part:

> *. . . such institution shall place on deposit with the State Treasurer the following bonds, notes and liquid securities in a sum at least equal to one hundred five percent (105%) of the amount of funds on deposit by the State Treasurer in excess of One Hundred Thousand Dollars ($100,000). . . .*

While not suggesting that all or even many banks are in trouble or unsafe, NACUBO strongly recommends collateralization of university deposits. NACUBO recognizes the difficulties the banking/investment industry has experienced during the 1980's and recommends that institutions avoid the unnecessary exposure created by uncollateralized deposits.

Failure by institutions of higher learning to have a written contract with financial institutions is partially responsible for uncollateralized deposits. A proper written contract with the financial institutions would require them to guarantee collateralization of deposits in compliance with state statutory requirements. In addition, the Office of the State Auditor attributes the problem to institutions' failure to have procedures in place to monitor collateral pledged by financial institutions.

These institutions' failure to monitor collateralization has resulted in four cases in which institutional deposits were left unsecured in violation of MISS. CODE ANN. Section 27-105-5 (see Exhibit 6, page 16). This type of situation creates unnecessary exposure for institutions and officials with cash management/investment responsibility.

EXHIBIT 6

INSTITUTIONS OF HIGHER LEARNING SCHEDULE OF UNSECURED DEPOSITS AS OF JUNE 30, 1989

ENTITY		UNSECURED AMOUNT
Gulf Coast Research Laboratory	$	150,867
Jackson State University		152,057
Mississippi State University		852,627
University of Southern Mississippi		604,444
	$	1,759,995

SOURCE: PEER analysis of fiscal year 1989 audit reports.

Four institutions do not have formal cash management/investment policies and procedures.

According to NACUBO, formal written guidelines provide management with an opportunity to establish limitations for fiscal managers with regard to cash/investment management. In addition, written guidelines clarify authority and responsibility for cash management/investment decisions and enhance accountability. Such guidelines do not have to be long and detailed, but should be sufficient to protect the cash manager and the institution by clarifying authority and investment limitations.

These institutions generally operate under a premise of "this is the way we have always done it." Among reasons given for not having cash management/investment policies were statements that the institution was too small or did not have enough extra money to invest. Other officials stated that because state statutes set guidelines regarding types of investments, there was no need for written investment guidelines.

According to NACUBO, the lack of written guidelines reduces the accountability of those specifically responsible for investments and other banking transactions. As such, university officials are open to unnecessary exposure when operating without formal written cash management/investment guidelines.

Five institutions do not obtain competitive bids on investments (primarily certificates of deposit), and five institutions solicit banking services based on public relations concerns rather than effectiveness and efficiency concerns.

The University of Southern Mississippi's banking policy requires the distribution of certificates of deposit among thirteen banks and savings and loans, and the other IHL entities referred to above have consciously elected to allow investments to "roll over" with the same institutions at the institutions' individual rates regardless of the competition's rates. Alcorn State University ($5,486 for fiscal year 1990) and the University of Southern Mississippi ($2,523 for fiscal year 1990) lost revenue as a result of their noncompetitive investment practices. Mississippi Valley State University maintained an inactive savings account during fiscal year 1990 with a balance in excess of $7,500 at an annual interest rate of only 4.5%. The university could have easily earned an additional $320 by investing these funds with other university funds at 8.75%.

The Mississippi University for Women and University of Southern Mississippi require the rotation of their operating accounts on a periodic basis among local banks, while Alcorn State University, Delta State University, and Mississippi Valley State University divide their banking services among all local banks. These multiple banking relationships exist for public relations purposes rather than being based on effectiveness and costs of banking services provided.

University officials stated that distribution of accounts among several banks and the placement of investments (certificates of deposits) with banks without obtaining competitive quotes was necessary to maintain good community relations with banks. Such relationships were also referred to as a means of good public relations. Some officials stated that because many financial institutions support the universities, the universities try to distribute the business among them.

While there may be political reasons for maintaining accounts at numerous financial institutions, this practice creates difficulties for cash managers. According to NACUBO, the consolidation of accounts creates more efficient cash management (greater investment revenues with less effort) by minimizing idle balances, creating larger dollar volumes to work with, providing greater opportunity for investment diversity, and simplification of compensating balances (minimum balances required by some banks in lieu of service charges). In addition, a policy requiring

consolidation of accounts promotes competitive bidding by enhancing the size of the contract upon which bids are sought.

Competitive bidding allows universities to take advantage of the free market (e.g., lower service charges or compensating balances for services rendered and/or higher interest rates for investments). While NACUBO does not recommend "beat the bank" tactics, it states that competitive banking/investment practices are necessary if maximum investment returns are to be realized at minimal costs.

The failure to obtain competitive rates of return results in revenue losses to the universities. While the amounts documented by PEER may be relatively small, it should be noted that PEER was conservative in its documentation of lost interest income. In addition, IHL/university officials have recently expressed strong concerns about the limited resources and poor financial condition of the state's university system. Failure to maximize potential revenues at every level (particularly when no additional cost is involved) under such conditions suggests a system that does not maximize its current resources.

Due to the rising costs of banking services and the improved potential for interest income, NACUBO recommends that institutions' banking relationships move from "gentlemen's trust" relationships to professional and businesslike relationships. Institutions should expect the same services and considerations from banks as other vendors with which they do business. Banks should be serving the interests of the universities, not vice versa.

The Board of Trustees of Institutions of Higher Learning does not exercise oversight over the university system's cash management and investment practices.

The board does not review investment performance nor does it establish or monitor cash management policies and procedures at the state's institutions of higher learning. In fact, the board itself did not formally approve a major transaction negotiated by IHL staff in May 1990. In that transaction, the IHL staff initiated a substantial trust and investment management agreement with Trustmark National Bank and transferred all IHL funds from Deposit Guaranty National Bank to Trustmark.

IHL requires universities to submit quarterly investment reports to the IHL central offices but does not review or analyze the reports, nor does the IHL staff present them to the board of trustees for review. In fact most of the universities are not timely in filing reports. Four institutions (Alcorn State University, Jackson State University, Mississippi State University, and the University of Mississippi) had not submitted any quarterly investment reports for the fiscal year ended June 30, 1990, as of July 10,

1990. The reports later submitted by the University of Mississippi were incomplete. PEER also found other reports to be incomplete or inconsistent in many cases. Overall, the universities' quarterly investment reporting process amounts to little more than a transfer of paper from the universities to the IHL central offices.

State laws clearly mandate the IHL board's oversight responsibilities with respect to the state's university system. MISSISSIPPI CONSTITUTION Section 213-A states in part:

> *The State institutions of higher learning now existing in Mississippi. . .shall be under the management and control of a Board of Trustees to be known as the Board of Trustees of state institutions of higher learning. . . .*

MISS. CODE ANN. Section 37-101-15 states in part:

> *(a) The Board of Trustees of State Institutions of Higher Learning shall . . .exercise control of all records, books, papers. . . .the use, distribution and disbursement of all funds, appropriations and taxes, now and hereafter in possession, levied and collected, received, or appropriated for the use, benefit, support, and maintenance or capital outlay expenditures of the institutions of higher learning. . . .*
>
> *(b) The board shall have general supervision of the affairs of all the institutions of higher learning, including. . . .the business methods and arrangement of accounts and records. . . .*

In addition, NACUBO states that the ultimate responsibility for managing an institution's investments rests with the governing board. Regardless of the amount of investable funds, continuous, professional supervision is a must. While the governing board (IHL) is not expected to establish specific procedural policies and guidelines (this responsibility is usually delegated to an investment committee), the board should confirm policies and review investment performance periodically.

Failure of IHL to monitor investment performance at its institutions has resulted in inconsistent and sometimes unacceptable investment/cash management practices. In effect, all findings presented in this report evolved from a lack of management oversight over cash management/investment activities of the university system, which by law is the responsibility of the IHL board of trustees.

Recommendations

1. Mississippi institutions of higher learning that do not have written depository contracts with their respective financial institutions should develop and execute contracts as soon as possible. Those institutions that already have written depository contracts should review them to insure that the contracts clarify terms and responsibilities of both parties such as the lengths of contracts, services to be provided, and fees (if any). At a minimum, the contracts should be in compliance with state statutes which require a two and one-half year contract with a guarantee by financial institutions that they will comply with applicable state laws, including collateralization requirements.

2. As recommended by the Office of the State Auditor, institutions of higher learning should implement procedures to monitor collateralization of deposits by financial institutions, and as stated above, written agreements should be established with financial institutions confirming that collateral will be pledged as needed to comply with state statutes.

3. Institutions of higher learning that have not established cash management/investment policies and guidelines should do so. Such policies and guidelines do not have to be long and detailed, but at a minimum should clarify authority, responsibility, and limitations for banking and investing by the respective institutions. Other institutions should review their policies and guidelines to insure inclusion of the above-mentioned elements.

4. Institutions of higher learning should consider seeking competitive bids for banking services. University of Mississippi officials stated that this process has been very successful for their operations, and Mississippi State University officials, who recently awarded a banking contract based on competitive bidding, anticipate savings and improved banking relations as a result of the bidding process. In any case, institutions should always seek bids for investments (certificates of deposit) among qualified financial institutions. This will insure that institutions obtain the highest available rate of return in their particular markets at the time of investment.

5. The IHL board of trustees and staff should involve themselves in the cash management/investment process of the institutions which they are required to manage and control under state law. It would be impractical to suggest the IHL board and staff establish specific policies and procedures for the institutions; however, general guidance and supervision in this area are absolutely necessary. In particular, IHL should review investment practices and performance on a periodic basis to insure institutions are attempting to maximize their resources in a rational and consistent manner. The quarterly investment reporting process is already in place. IHL needs only to

improve the timeliness, consistency, and content requirements for universities to create an excellent document for investment performance review. These reports should be presented to the board of trustees (or its appointed investment committee) on a periodic basis after analysis by the IHL staff.

Private Foundations

As requested by legislators that sought PEER's review of IHL cash management, PEER sought to review *"all cash management functions encompassing all sources of monies whether restricted or unrestricted, appropriated or self-generated"* of IHL or its universities. During its review PEER determined that many university officials manage monies for private foundations that are held solely for the benefit of their respective universities. PEER also determined that the great majority of endowments held on behalf of Mississippi's universities are managed through private foundations.

As of June 30, 1989, over seventy-eight percent of endowments on behalf of Mississippi universities were held by private foundations which are administered primarily by university officials but are not subject to state statutory requirements. (See Exhibit 7, page 22).

Each of Mississippi's eight public universities is affiliated with a single-purpose foundation that exists solely for the benefit of the university. IHL officials have also developed a foundation for use by the Commissioner as a "discretionary fund." These foundations claim non-profit status and exemption from federal income taxes.

IHL Commissioner's Discretionary Fund

The Commissioner's discretionary fund was established by IHL officials to *"permit him to conduct promotional and good will activities that cannot be provided from state source funds."* The Commissioner's fund was originally maintained within the Jackson State University foundation. However, in 1989 IHL officials activated a dormant nonprofit corporation, formerly established by the Research and Development Center, to serve solely as a conduit for university foundation funding of selected Commissioner's activities. See Appendix A, page 29, for a copy of the corporate resolution establishing the Commissioner's fund.

The Commissioner's fund is managed exclusively by IHL officials and appears to benefit primarily IHL officials. University presidents have authorized assessments on their respective foundations, at the recommendation of the IHL board, to finance Commissioner's fund expenditures. As such, a contributor's donation to one university might, in effect, be used to benefit another university through this fund.

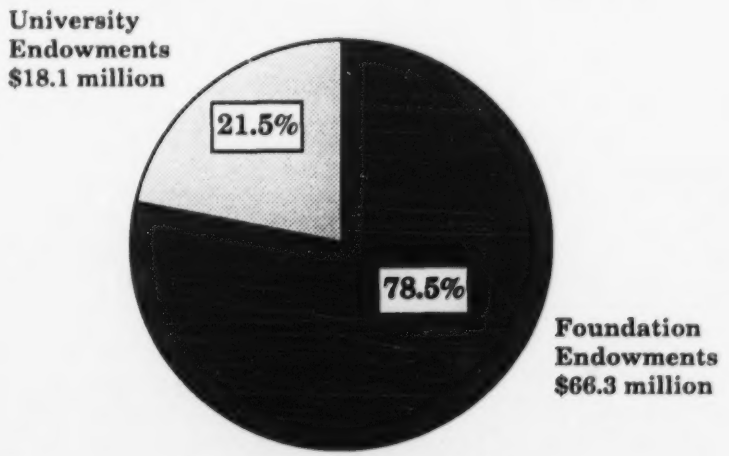
IHL officials use the Commissioner's fund for expenditures such as entertainment, travel, and club memberships. For fiscal year 1990, IHL officials made the following expenditures from the fund:

• food and refreshments	$16,323
• gifts and flowers	$ 884
• contributions	$ 920
• club memberships	$ 1,526

In addition, IHL officials use the Commissioner's fund to provide an automobile and additional life insurance for the Commissioner. Expenditures providing additional compensation, if paid from state funds, would be contrary to constitutional provisions regarding compensation of public officials.

The Commissioner's fund presents a particular public policy concern. If replicated by other state or local government entities, it could result in loopholes to state fiscal and ethics laws.

EXHIBIT 7
NET WORTH OF MISSISSIPPI PUBLIC UNIVERSITY ENDOWMENTS AS OF JUNE 30, 1989



Total Endowments $84.4 million

SOURCE: PEER analysis of university and foundation financial statements.

University foundations are funded primarily by private donations, while the Commissioner's fund is funded by assessments on each of the university foundations. With the exception of Delta State University, the foundations are generally located on university property, staffed by university staff, and administered by university management. University officials sit on the boards of all foundations except those of Mississippi State University and Delta State University.

IHL and university officials prefer the flexibility of foundations because of their private status. Foundations can expend funds in a manner in which a university or IHL might not otherwise have authority, such as for entertainment. IHL/university officials also stated that some donors prefer to contribute to private foundations because they offer more confidentiality than public universities, where documentation of contributions might be public record.

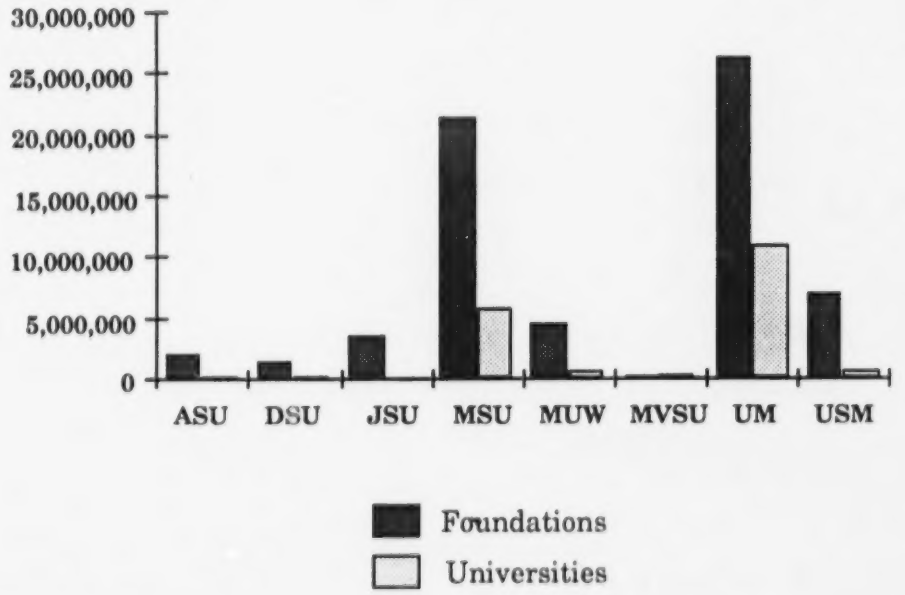
Due to their close affiliation (management, staffing arrangements, names, and fund-raising activities), a university and its related foundation tend to have a shared identity. These relationships can be illustrated by responses to a NACUBO Endowment Study survey by Mississippi State University and the University of Mississippi in 1989. NACUBO requested data on universities' endowment assets. Mississippi State University is reported as having $25.9 million in endowment assets (market value) and the University of Mississippi is reported as having $37.7 million in endowment assets as of June 30, 1989. A review of these institutions' June 30, 1989, audited financial statements reflects endowment assets of $6 million and $6.2 million, respectively. At least for purposes of this NACUBO study, these two institutions consider foundation endowment assets to be a part of university endowment assets.

PEER determined that these university/foundation affiliations, although beneficial to the universities, suffer from insufficient oversight, as exemplified by the following:

- *No controls govern the relationships between IHL/university staff and the foundations*--As noted above with MSU and UM, foundation assets far exceed endowment assets of the state's public universities (see Exhibit 8, page 24). This situation exists primarily because university officials' fundraising efforts are directed primarily to the foundations. In fact, state resources have been used to manage foundation activities. University staff on the state's payroll contribute a considerable amount of time to foundation activities ranging from fundraising to administration and service on boards of directors. While in most cases, foundations do not directly reimburse universities for staff and

EXHIBIT 8

COMPARISON OF UNIVERSITY ENDOWMENTS TO FOUNDATION ENDOWMENTS AS OF JUNE 30, 1989



SOURCE: PEER analysis of university and foundation financial statements.

other resources, the foundations do contribute considerable amounts to the universities either directly or in-kind.

- *Foundation funds are used in some cases to provide additional compensation to IHL/university officials.* (See page 21.)

- *Foundations are not statutorily required to submit to post-audit.* PEER requested audit reports on IHL/university foundations for the fiscal year 1989. Four institutions (Delta State University, Jackson State University, Mississippi State University, and Mississippi Valley State University) submitted unaudited financial information in response to the request while the others submitted audited financial statements. The Office of the State Auditor does not audit or otherwise review foundations in any manner other than requesting basic financial data to include in the universities' financial statements for informational purposes.

Obviously, foundations have a positive effect on universities based on the fact that foundations make significant financial contributions to the universities on an annual basis. However, although foundations have separate legal identities from the respective universities, they have not operated completely independent of the universities. As such, universities administer millions of dollars in endowments through foundations with no state oversight and in some cases without annual financial audits.

In the private sector, the potential for mismanagement is controlled, at least to some extent, through a direct relation between proper management and corporate profits. In the absence of a profit motive in the government sector, potential mismanagement is controlled through statutory oversight provisions. In quasi-government entities such as these university foundations, there are few inherent controls to prevent or detect mismanagement. Donors make contributions to these foundations with the intention of assisting a particular public institution, but any problems that might occur in the management of those funds due to a lack of inherent controls result in a level of support to the public institutions that is less than the donor intended. To the extent that this potential exists, the lack of oversight over public university foundations is a matter of public interest.

Recommendations

1. The Legislature may wish to amend state laws to allow more oversight over private foundations whose sole purpose is the support of institutions of higher learning or other state agencies. Such oversight

might include requiring that foundation records (other than records that disclose contributors' names and amounts) be subject to the Mississippi Public Records Act of 1983.

2. IHL/university officials with administrative responsibility for university foundations should insist that their respective foundations be audited annually by an independent certified public accountant.

CONCLUSION

PEER has identified a significant number of cash management deficiencies within Mississippi's university system (see Exhibit 1, page 4.) IHL and its universities should make every effort to maximize resources through the cash management process, particularly considering the state's current financial situation.

APPENDIX

MISSISSIPPI RESOURCE DEVELOPMENT CORPORATION
Resolution Establishing Commissioner's Fund

By virtue of the provisions of Article XII of the Corporate by-laws and the unanimous act of the Board of Directors, the following resolution is adopted on the day and date as hereinafter set forth.

Whereas the presidents of the eight universities, at the recommendation of the Board of Trustees, have pledged to support a fund known as the Commissioner's Fund with private, non-state monies; and

Whereas the fund so created is to be provided at the disposal of the Commissioner of Higher Education to permit him to conduct promotional and good will activities that cannot be provided from state source funds; and

Whereas the areas of expenditure herein set forth are deemed appropriate and beneficial for the purpose of promoting the Institutions of Higher Learning and thereby, through them, is a program directed toward the full development of the human and economic resources of the State of Mississippi;

NOW, THEREFORE, BE IT RESOLVED that the Mississippi Resource Development Corporation, acting by and through its President and its Secretary-Treasurer, receive the funds provided by the universities' presidents as aforesaid and expend them for the following purposes to promote the Institution of Higher Learning:

1. General Entertainment (legislators, business leaders, Board members, etc.)

2. Automobile lease, insurance and upkeep (or automobile allowance not to exceed the amount of lease).

3. Travel for Mrs. Cleere when she accompanies the Commissioner in representing the system.

4. Official travel for the Commissioner that is not covered under existing state policies.

5. Minor purchases in connection with the operations of the Board office not covered by state policy (for example, refreshments for special meetings hosted by the Commissioner).

6. Club memberships and dues (Colonial Country Club, River Hills Club, and University Club), and

BE IT FURTHER RESOLVED that the aforesaid expenditure be made solely upon the Commissioner's prior approval and that the documentation of such expenditures be submitted to and maintained by the Corporation as support for monthly reimbursement on payment of bills; and

BE IT FURTHER RESOLVED that in addition to the expenditure categories set forth above, other minor expenditures deemed appropriate and beneficial by the Commissioner and related to the activities of the University system may be paid from such funds.

This the 1st day of December, 1989.

Charles A. Pickett
Chairman & Director

Sidney Rushing
Director

Thomas H. Campbell, III
President & Director

Bryce Griffis
Director

James Rhodes
Secretary-Treasurer & Director

AGENCY RESPONSE

MISSISSIPPI

INSTITUTIONS OF HIGHER LEARNING

Office of Commissioner

November 13, 1990

9:22 AM

Mr. John W. Turcotte
Executive Director
PEER Committee
P. O. Box 1204
Jackson, MS 39215-1204

Dear Mr. Turcotte:

On behalf of President Hickman and members of the Board of Trustees of State Institutions of Higher Learning, I have enclosed responses to the Executive Summary of a Review of Cash Management Policies, Procedures and Practices of Mississippi's Institutions of Higher Learning. It is the understanding of this office that the attached responses will be published as part of the final report.

These responses were prepared by the staff of the Board of Trustees with the assistance of the Board members and the chief executive officers of the institutions. The responses address each recommendation found in the Executive Summary.

The Board of Trustees and their staff appreciate the professional effort that went into the development of this report and the recommendations will be used to further strengthen the System of Higher Education in the state.

Sincerely,

W. Ray Cleere
Commissioner of Higher Education

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Enclosures

Section A
OVERVIEW

The Board of Trustees of State Institutions of Higher Learning appreciates the comprehensive review of cash management policies of the System performed by the PEER staff. Conduct in all phases of this review procedure reflects well on the organization. This office notes, however, that most of the findings of the PEER staff involve matters of which the Board and/or the Board staff were aware and already working to correct, or matters in which PEER felt that existing law was insufficient. The Board of Trustees intends to continue its diligence in addressing these matters, where appropriate, and will, of course, conform to any changes that occur in existing statutes.

The Board of Trustees employs a professional staff to oversee the administration of the system of universities for which the Board is responsible. It is the responsibility of this staff to insure that each university under the control of the Board conforms to statute and to good management practices. Reviews by the State Department of Audit, PEER audits and federal reviews of programs, as well as direct audits made by this office, are all utilized in the oversight process. It is the responsibility of each university utilizing its own professional staff to manage its fiscal affairs in conformance with law and established policy of the Board. The System is operating this fiscal year with a total budget of $870 million. After adjusting for noncash items such as federal student financial aid, uncollectible student

receivables, and other noncash transactions, the System is managing cash daily which totals more than $2 million. It is the position of the Board and the Commissioner that the professional staffs employed by the universities are capable of carrying out these managerial responsibilities. The Board also employs a professional staff to assist the universities when necessary.

The volume of cash that is in the System at any time does represent a substantial revenue source in the form of investment income. However, there are outside restrictions placed on the ability to invest some funds of the System. For example, federal requirements mandate that universities may not have more than a three-day cash requirement on hand and that all interest earned must be returned to the federal Treasury. The System is reimbursed by state appropriations for expenditures; therefore, appropriations are not available for investment. Instead, there should be a one-month cash requirement on hand (approximately $25 million) at any time to cover expenditures until reimbursement occurs. Student fee income represents the most consistent source of investment revenue for the universities.

PEER staff recommends that a policy be established prohibiting officials/employees whose job responsibilities require them to make financial management decisions from having any financial interest in financial institutions in which funds are housed. It is not

clear from Exhibit B which officials/employees would be affected by this policy. A number of the employees listed would undoubtedly not be in a position to directly affect a decision of this type.

The Board of Trustees is prepared to review the need for a more restrictive policy if it is possible to determine from current statute the officials/employees that would be covered. The Board of Trustees concurs with PEER that this report should be forwarded to the Mississippi Ethics Commission for review. The PEER recommendation that the Legislature amend Mississippi Code Ann. Section 25-4-105 (4) (a) to prohibit public employees from being officers or stockholders of banks is duly noted. The Board stands ready to implement any policy required by a change in statute.

In the area of effectiveness of cash management, PEER has listed five recommendations. The Board of Trustees supports these recommendations and will take appropriate steps to insure that where institutions are remiss, corrective action is taken.

In those instances where universities do not have formal depository contracts with the respective financial institutions, steps will be taken to correct the problem. It should be noted that all previous audits and reviews by both internal staff and outside audit firms failed to identify this as a weakness in the System's financial controls. It should also be noted that of the five identified areas, only one university was deficient in all five. Two universities did not have any audit exceptions and three other universities had only one

exception.

The Board Office has been aware for a number of years that the universities have not been able to monitor properly collateralization of deposits by financial institutions. The Board staff has met with the State Treasurer's Office, the depositories, the State Auditor's Office and the State Banking Examiner's Office in an attempt to solve this problem. The State Treasurer's Office is responsible for the safekeeping of receipts pledged as additional collateral. University deposits, other than state appropriations, are held outside the State Treasury. This situation leaves the universities in a position between the depositories and the State Treasurer's Office. The university must monitor cash balances at all depositories, notify the Treasurer's Office, and then rely on the Treasurer's Office to insure that the proper collateral is pledged and held by the Treasury in the university's name. The Board of Trustees will make every effort to insure that proper collateralization of university deposits occurs.

The Board of Trustees concurs with PEER's finding that cash management/investment policies should be established at all institutions. The Board will immediately review this situation and assist the universities in developing appropriate policies.

Under the policies of the Board, there exists a system of universities under which separate institutions are and should be held responsible for the administration

of financial affairs. The staff in turn monitors the universities and will add cash management practices to existing audit programs, where appropriate. PEER's calculations that some investment earnings may have been lost appears to be accurate, but it is extremely difficult to be sure after the fact that better financial decisions could have been made with information that was available at the time. PEER calculations indicate a possible loss of substantially less than 2% of total potential investment income. In the case of one university cited, this would be the equivalent of that university having less than $80,000 during the course of a year not fully invested out of $3.5 million in the investment portfolio. Even this involves significant speculation regarding the proper combination of risk and return that would indicate a well-managed portfolio. It is not felt that this presents an adequate conclusion that cash assets are being managed poorly. With the financial uncertainty of the state over the past ten years, the universities have had to be extremely conservative in projecting cash flows and do not always have the option of investing for long term returns.

It was understood at the beginning of the PEER audit that the private foundations that support the universities would not be part of the review. However, in response to PEER's request, financial statements of the foundations were released. In the future the Board of Trustees will recommend, as suggested by PEER, that foundations, where

appropriate, prepare financial statements audited by independent certified public accountants. For some universities with very small foundations, the foundation revenue is minimal and an independent audit will be a prohibitive and unwarranted cost. The Board will offer to assist the foundations in obtaining affordable bids from independent auditors, and if that is not possible, the Board will offer the foundations an audit prepared by the Board's internal auditors.

Foundations are an essential source of support for the universities. It is through these foundations that scholarships, endowed chairs, capital and equipment purchases and other enhancements are provided. The Board hopes that PEER and the Legislature will be sensitive to the vital contributions that privately funded foundations make in supplementing the resources of the public universities. Currently, the foundations are located at the universities and the administration of the university has the ability to influence their direction. A statutory requirement regarding the management of foundation funds could add measurably to the administrative expenses of the foundations, limit the funds available to the university, and even limit the ability of the universities to attract funds into these foundations.

Section B
SPECIFIC RESPONSES TO RECOMMENDATIONS

POTENTIAL CONFLICTS OF INTEREST

RECOMMENDATION

1. The Board of Trustees of Institutions of Higher Learning should establish a policy prohibiting officials/employees from having any financial interest in financial institutions with which their job responsibilities require them to make financial management decisions.

RESPONSE

A policy of this nature will place restrictions on our employees/officials above and beyond those of MS CODE ANNOTATED Section 25-4-105. Any policy created must first define "financial management decisions" and indirect and direct must be clearly defined in regard to financial institutions and employees. The Board of Trustees is prepared to review the need for a more restrictive policy.

RECOMMENDATION

2. The Executive Director of the PEER Committee should forward a copy of this report to the Mississippi Ethics Commission for its review and investigation if necessary.

RESPONSE

The Board of Trustees concurs with this recommendation.

RECOMMENDATION

3. The Legislature should amend MISS. CODE ANNOTATED Section 25-4-105(4)(a) concerning public employees' business relationships. Public employees should be prohibited from being an officer or stockholder of banks or other financial institutions with which their employing agencies do business if the employees have financial management responsibilities.

RESPONSE

The Board of Trustees has always and will continue to abide by all applicable statutes.

CASH MANAGEMENT

RECOMMENDATION

1. Mississippi institutions of higher learning that do not have proper written depository contracts with their respective financial institutions should develop and execute contracts as soon as possible.

RESPONSE

The Board of Trustees concurs with this recommendation. The Board will insure that all institutions under their control enter into formal depository contracts with the respective depository.

RECOMMENDATION

2. As recommended by the Office of the State Auditor, institutions of higher learning should implement procedures to monitor collateralization of deposits by financial institutions.

RESPONSE

The Board of Trustees will continue to monitor collateralization of deposits. The IHL staff has met with the State Treasurer's Office, depositories, the State Auditor's Office, and the State Banking Commissioner's Office in an attempt to solve this problem. The State Treasurer's Office is responsible for the safekeeping of receipts pledged as additional collateral. Institutional deposits, other than state appropriations, are held outside the State Treasury. This situation leaves the institutions in a position between the depositories and the State Treasurer's Office. The institutions must monitor cash balances at all depositories, notify the Treasurer's Office, and then rely on the Treasurer's Office to insure that the proper collateral has been pledged. The Board of Trustees will make every effort to insure that proper collateralization of university deposits occurs.

RECOMMENDATION

3. Institutions of higher learning that have not established proper cash management/investment policies and guidelines should do so. Such policies and guidelines should clarify authority, responsibility, and limitations for banking and investing by the respective institutions.

RESPONSE

The Board of Trustees concurs with this recommendation. The Board's staff will review this situation and assist the institutions in developing written policies and procedures. The examples of lost revenues cited by PEER were insignificant when compared to total investments and appear to be characteristics of efficiently managed portfolios.

RECOMMENDATION

4. Institutions of higher learning should consider seeking competitive bids for banking services, and in all cases should seek bids for investments (certificates of deposit) among qualified financial institutions.

RESPONSE

The Board of Trustees concurs. All institutions will go beyond state statutes and seek competitive bids for banking services and applicable investments. PEER should be aware of the cash and investments that are restricted as to investing and use by grantors and/or donors.

RECOMMENDATION

5. The IHL Board of Trustees and staff should involve themselves in the cash management/investment process of the institutions which they are required to manage and control under state law.

RESPONSE

The management of $2 million of daily expenditures at more than eleven locations could not be effectively managed at one central location. The Board staff aggressively monitors the institutions and will add cash management practices to existing audit programs where necessary. Cash needs are inherently different at all institutions and a system-wide policy would be inefficient due to such varying factors as institutional missions, revenue sources, and historical collection rates.

PRIVATE FOUNDATIONS

RECOMMENDATION

1. **The Legislature may wish to amend state laws to allow more oversight over private foundations whose sole purpose is the support of institutions of higher learning or other state agencies. Such oversight might include requiring that foundation records (other than records that disclose contributors' names and amounts) be subject to the Mississippi Public Records Act of 1983.**

RESPONSE

Currently, the Foundations are located at the institutions, and the administration of the institutions have the ability to influence the direction of the Foundations. A change in legislation could limit the ability of the institutions to influence the direction of the Foundations. More importantly, the increased outside oversight could disrupt a significant source of funding for student scholarships and essential institutional programs due to increased administrative expenses.

RECOMMENDATION

2. **IHL/university officials with administrative responsibility for university foundations should insist that their respective foundations be audited annually by an independent certified public accountant.**

RESPONSE

Foundations will be required to prepare financial statements and obtain an audit by independent certified public accountants. In the case of the smaller institutions where the cost of an external audit would be prohibitive, the audit will be performed by the Board's certified internal auditors.

PEER Staff

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● Danny Miller
David Mitchell
Katherine Stark
Franklyn Tate
Larry Whiting

● *Indicates project manager*

• *Indicates staff with primary assignment to this project*